

LEGAL & GENERAL MORTGAGE SERVICES LIMITED

REPORT AND ACCOUNTS

1999

2190427



A19
COMPANIES HOUSE

ATTN:ZG88

0217
27/04/00

CONTENTS

Page

2	Board of Directors
3	Report of the Directors
6	Directors' Responsibilities
7	Report of the Auditors
8	Profit and Loss Account
9	Balance Sheet
10	Notes to the Financial Statements

REGISTERED OFFICE

Temple Court
11 Queen Victoria Street
London
EC4N 4TP

Registered in England & Wales No. 2190427

DIRECTORS

J. D. Whorwood (Chairman)

A. M. Crossley

L. K. Penney

S. R. Pistell

SECRETARY

C. A. Davies

REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements of Legal & General Mortgage Services Limited ("the Company") for the year ended 31 December 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be that of trading in mortgage loans secured on residential properties within England and Wales.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Legal & General Mortgage Services Limited continues to manage its mortgage loan portfolio on a profitable basis. No new business was written on this portfolio during the year and this will continue.

RESULT FOR THE YEAR AND DIVIDEND

The results of the Company are set out on page 8. On 17 February 2000, the directors approved a dividend payment of £2,300,000 for the year ended 31 December 1999 (1998: £Nil).

DIRECTORATE

The names of the present directors are shown on page 2.

M. A. C. Hayden resigned, A. M. Crossley and L. K. Penney were appointed as Directors of the Company on 18 November 1999. S. R. Pistell was appointed as a Director of the Company on 21 April 1999. J. D. Whorwood was appointed as a Director of the Company on 16 March 1999. M. P. Kelly resigned as a Director of the Company on 21 September 1999. G. C. Thomas and N. R. Walton resigned as Directors of the Company on 22 April 1999.

DIRECTORS' SHARE INTERESTS

No director had any interest in the shares of the Company during the year ended 31 December 1999.

According to the Register of Directors' Share Interest kept by the Company, the remaining directors had interests within the meaning of the Companies Act 1985 in the ordinary shares of 2.5p each on 31 December 1999 in the Company's ultimate holding company, Legal & General Group plc, as shown below:

	At 1 January 1999 *	At 31 December 1999
A. M. Crossley	106,384	106,384
L. K. Penney	56,056	56,143
S. R. Pistell	24,860	27,364
J. D. Whorwood	52,812	67,296

(* or date of appointment if later)

REPORT OF THE DIRECTORS (CONTINUED)

Included in directors' share interests shown above are, where applicable, shares allotted under the employee profit sharing scheme, the Restricted Share Plan (RSP) and the Share Bonus Plan (SBP). Details of the RSP and SBP schemes are disclosed in the accounts of the ultimate holding company.

In addition to the interests listed above, the directors (not including those whose options are disclosed in the accounts of the ultimate holding/ holding parent company) held the following options. They were acquired under either the Legal & General Executive Share Option Scheme (ESOS) (closed October 1995), and/or the Legal & General Group Plc Savings-Related Share Option Scheme (1991) and/or Legal & General 1999 Savings-Related Share Option Scheme (SAYE). Details of options granted and exercised, together with totals of options held, are set out in the table below:

	A. M. Crossley	L. K. Penney	S. R. Pistell	J. D. Whorwood
At 1 January 1999 *	65,788	58,312	1,320	65,352
Granted during year:				
- ESOS	-	-	30,000	48,000
- SAYE	-	-	1,288	1,550
Exercised during year:				
- ESOS	-	-	-	-
- SAYE	-	-	-	(9,368)
At 31 December 1999	65,788	58,312	32,608	105,534

(* or date of appointment if later)

No options lapsed during the year.

CREDITORS

The Company's purchases are administered by Legal & General Assurance Society Limited (the Society). The Society agrees terms and conditions for its business transactions with suppliers. Payments are made on these terms provided the supplier meets its obligations. The average number of days of payments outstanding at 31 December 1999 was 33.

YEAR 2000

In common with all companies within the Legal & General group, the company undertook a review of the risks and uncertainties associated with the potential impact of the change of century on the business. The principal focus of activity during 1999 was on testing, risk mitigation and contingency planning. The Group managed the transition into the Year 2000 with no material disruption to customers, staff or business. The Group will continue to keep the situation under review until all elements of the business processes are utilised for the first time during 2000.

The total cost of year 2000 compliance incurred by the company between 1996 and 1999 was £112,000 of which £17,000 was incurred during 1999.

REPORT OF THE DIRECTORS (CONTINUED)

RELATED PARTY TRANSACTIONS

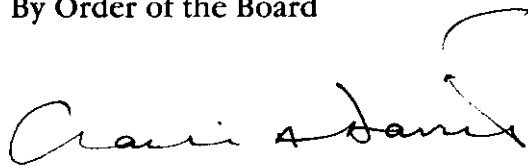
There were no material transactions between directors or key managers and the Legal & General group of companies which are required to be disclosed under Financial Reporting Standard No. 8 Related Party Disclosures. All transactions between the Legal & General group of companies (or Legal & General Group Plc), their directors and key managers are on commercial terms which are no more favourable than those available to staff in general.

ELECTIVE RESOLUTION

An elective resolution has been passed by the Company's shareholders whereby the Company is not required to hold an Annual General Meeting and does not need to appoint auditors each year.

PricewaterhouseCoopers were appointed as auditors on 25 November 1998 and will now remain in office until the Company or the auditors otherwise determine.

By Order of the Board

A handwritten signature in dark ink, appearing to read 'C.A. Davies', with a large, sweeping flourish extending upwards and to the right.

C.A. Davies
Secretary

Date : 27 March 2000

RESPONSIBILITY OF THE DIRECTORS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking responsible steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF LEGAL & GENERAL MORTGAGE SERVICES LIMITED

We have audited the financial statements on pages 8 to 14 which have been prepared in accordance with the accounting policies set out on page 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 6, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors

31 Great George Street
Bristol BS1 5QD

Date: 7 April 2000

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1999**

	Notes	<u>Continuing Operations</u>	
		1999 <u>£'000</u>	1998 <u>£'000</u>
Interest Income		18,148	27,227
Interest Expense		(14,164)	(23,076)
Gross Profit		<u>3,984</u>	<u>4,151</u>
Administrative expenses		<u>(1,258)</u>	<u>(1,953)</u>
		2,726	2,198
Other Operating Income		648	515
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	<u>3,374</u>	<u>2,713</u>
Tax on profit on ordinary activities	4	<u>(1,008)</u>	<u>(827)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		2,366	1,886
Dividends	11	<u>(2,300)</u>	<u>-</u>
RETAINED PROFIT		66	1,886
PROFIT BROUGHT FORWARD		<u>4,610</u>	<u>2,724</u>
PROFIT CARRIED FORWARD		<u><u>4,676</u></u>	<u><u>4,610</u></u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

All gains and losses which arose during the period have been reflected in the profit and loss account.

The notes on pages 10 to 14 are an integral part of these accounts.

BALANCE SHEET AS AT 31 DECEMBER 1999

	Notes	1999 £'000	1998 £'000
CURRENT ASSETS			
Mortgage Advances	5	214,283	260,606
Debtors	6	10,771	1,365
Investments	7	21,002	27,827
		<u>246,056</u>	<u>289,798</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	8	(235,380)	(279,188)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,676</u>	<u>10,610</u>
CAPITAL AND RESERVES			
Called up share capital	9	6,000	6,000
Profit and loss account		4,676	4,610
EQUITY SHAREHOLDERS' FUNDS	10	<u>10,676</u>	<u>10,610</u>

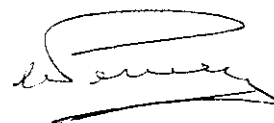
The notes on pages 10 to 14 are an integral part of these accounts.

Approved by the Board



S. R. Pistell
Director

Date: 27th March 2000



L. K. Penney
Director

Date: 27th March 2000

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year is set out below.

a) Basis of Accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The directors are of the opinion that turnover and cost of sales are not meaningful measures in the context of the Company's business. In order to show a true and fair view, they have disclosed the components of gross profit which reflect the Company's activities; this format for the Profit and Loss Account does not fully accord with the Companies Act 1985 Schedule 4.

The directors are of the opinion that mortgage advances form an integral class of fixed assets investments as part of the balance sheet and, in order to show a true and fair view, have used a format for the Balance Sheet which is not fully in accordance with the Companies Act 1985 Schedule 4.

b) Interest Income

Interest Income comprises interest income from mortgage advances made in England and Wales, including deferred interest, interest recoverable from the Inland Revenue under the MIRAS (mortgage interest relief at source) scheme and interest receivable from purchases of Mortgage Backed Securities.

c) Interest Expense

Interest expense comprise interest payable on borrowings to finance mortgage advances and purchases of mortgage backed securities. The cost of protection against interest rate exposure is included in interest expense and is recognised over the period of the treasury instrument.

d) Mortgage Advances

Mortgage Advances comprise endowment, pension linked and interest only loans secured by mortgages over residential properties located in England and Wales. Advances are shown at cost, plus deferred interest, less amounts set aside for bad debts, less amounts held available for reborrowing.

e) Deferred Tax

Deferred tax is calculated on the liability method and is provided only to the extent that it is considered reasonably probable that the liability will become payable within the foreseeable future.

f) Related Party Transactions

The Company has taken advantage of the exemption in FRS8 from disclosing related party transactions with other entities included in the consolidated financial statements for Legal & General Group plc.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on Ordinary Activities before Tax is stated after charging:

	1999 <u>£'000</u>	1998 <u>£'000</u>
Interest Charges - Intercompany	13,788	23,063
Auditor's Remuneration	8	10
Year 2000 Costs	17	95
Bank Overdraft Interest Expense	2	11

3. DIRECTORS' EMOLUMENTS AND EMPLOYEES

No emoluments were paid by the Company to any Director nor were any pension contributions paid. There are no direct employees of the Company.

All employees engaged in the company's business are seconded from Legal & General Bank Limited, which charges service and management fees.

4. TAX

	1999 <u>£'000</u>	1998 <u>£'000</u>
UK Corporation Tax at 30.25% (1998: 31.0%)	(1,008)	(823)
Adjustments in respect of prior periods	-	(4)
	<u>(1,008)</u>	<u>(827)</u>
Potential deferred tax asset not recognised: Timing differences	<u>43</u>	<u>57</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. MORTGAGE ADVANCES

	1999 <u>£'000</u>
1 JANUARY	260,606
Movement in the Year:	
Mortgage Originations and Further Advances	728
Redemption of Mortgage Advances	(47,390)
Reborrowing Reserve	95
Decrease in Provision for Doubtful Debts	244
31 DECEMBER	<u>214,283</u>

The bad debt provision on Mortgage Advances may be further analysed:

	1999 <u>£'000</u>
1 JANUARY	789
Charge for the year	100
Provisions utilised	(344)
31 DECEMBER	<u>545</u>

6. DEBTORS

	1999 <u>£'000</u>	1998 <u>£'000</u>
Amounts owed by Group Undertakings	9,847	-
Accrued Interest Income	163	250
Other Debtors	761	1,115
	<u>10,771</u>	<u>1,365</u>

All debtors are receivable in less than one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. INVESTMENTS

	1999 <u>£'000</u>	1998 <u>£'000</u>
Mortgage Backed Securities	<u>21,002</u>	<u>27,827</u>

All investments are unlisted.

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 <u>£'000</u>	1998 <u>£'000</u>
Amounts owed to Group Undertakings	231,316	277,311
Dividends Payable	2,300	-
Other Creditors	172	671
Bank Loans & Overdrafts	584	435
Corporation Tax	1,008	771
	<u>235,380</u>	<u>279,188</u>

9. SHARE CAPITAL

	1999 <u>£'000</u>	1998 <u>£'000</u>
Authorised: 15,000,000 Ordinary Shares of £1 Each	<u>15,000</u>	<u>15,000</u>
Issued and Fully Paid: 6,000,000 Ordinary Shares of £1 Each	<u>6,000</u>	<u>6,000</u>

10. MOVEMENT IN SHAREHOLDERS' FUNDS

	1999 <u>£'000</u>	1998 <u>£'000</u>
Shareholders' Funds at 1 January	10,610	8,724
Retained Profit for the Year	66	1,886
Shareholders' Funds at 31 December	<u>10,676</u>	<u>10,610</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. DIVIDENDS

	1999 <u>£'000</u>	1998 <u>£'000</u>
Dividends payable	<u>2,300</u>	<u>-</u>

A final dividend of 38.33p per share (1998: nil) was approved by the directors on 17 February 2000.

12. FINANCIAL COMMITMENTS

As at 31 December 1999 the Company had the following financial commitments in the ordinary course of business:

	1999 <u>£'000</u>	1998 <u>£'000</u>
Undrawn mortgage facilities	<u>116</u>	<u>1,112</u>

13. SEGMENTAL DISCLOSURE

The Company has not made any segmental disclosure as it operates only in the mortgage lending market in England & Wales.

14. CASHFLOW STATEMENT

In accordance with Financial Reporting Standard 1 (Revised), the Company has not prepared a Cashflow statement as the ultimate holding Company, Legal & General Group Plc, has included a Group Cashflow Statement within its financial statements.

15. HOLDING COMPANY

The ultimate holding Company is Legal & General Group Plc, a Company incorporated in Great Britain. This is both the largest and smallest group into which the Company's accounts are consolidated. A copy of these accounts can be obtained from:

Legal & General Group Plc
Temple Court
11 Queen Victoria Street
London EC4N 4TP